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Cover story

Startup help that money can't buy

With new partnerships, deep insight – and a pitch to a Nobel winner – GE Ventures is redefining corporate VC**🔑 SUBSCRIBER CONTENT:**Nov 1, 2013, 3:00am PDT **Updated: Nov 4, 2013, 8:54am PST**

General Electric Co. is shedding new light on startups. The old-school corporate powerhouse is increasingly reaching out to a new breed of early-stage matchmakers, such as the Peter Thiel-backed Breakout Labs and accelerator Rock Health, in its quest to meet startups that could help it define the future.

It seems like the standard equation: Corporate venture capital's growing lust for bubbly, innovative startups, coupled with the neophytes' need for cash, makes the Bay Area a virtual pickup bar for entrepreneurs.

But GE and its partners say there's more to it than that. The marriage offers young companies commercial advice and access to top thinkers across GE's varied product lines – something not available through traditional VC channels – that could be the difference between startup and survivor. GE gets access to innovations that may be a long way from the market but have already passed enough vetting from the likes of Breakout Labs or Rock Health to be officially considered promising.

In the end, these links could forge broader ties between the Bay Area's startup culture and one of the world's 25 largest companies.

"It wasn't just about the capital," said Lindy Fishburne, executive director of San Francisco-based Breakout Labs. "Some really do need the cash, but actually a technical or scientific collaboration with a partner like GE is worth more than 'x' amount of dollars at this stage.

"GE actually has customers and knows what customers need."

Be nimble, collaborate

GE and other corporate venture arms work closely with Rock Health, the San Francisco space for digital health startups, and GE holds "open office hours" with one-on-one coaching at NestGSV Inc., a Redwood



PAOLO VESCIA

Lindy Fishburne (left), of Breakout Labs, with GE Ventures' Lisa Coca: "A partner like GE is worth more than 'x' amount of dollars. GE actually has customers and knows what customers need."

City center launched earlier this year to bring together startups, large companies, universities, investors and government.

In its various partnerships, GE Ventures is stepping beyond the traditional corporate VC role to offer more technical and commercial help, including GE's scientist-rich global research center, said Sue Siegel, who was hired by GE from venture capital firm Mohr Davidow Ventures last year. She heads GE's Menlo Park-based Healthyimagination fund, a \$6 billion health care investing unit of GE Ventures, which she also leads.

GE's moves also could raise its profile among the growing legion of corporate venture organizations.

Corporate venture participated in 257 deals worth \$3.1 billion, according to CB Insights, which tracks venture capital and angel investments. That total compares to 211 deals that reaped \$3.3 billion in the same period of 2012.

In some cases, these corporate sugar daddies are simply using their cash efficiently, much the way drug companies have downsized their R&D operations and outsourced innovation.

Working with Rock Health, for example, offers "a brand of companies known to be doing really, really well in digital health," said Malay Gandhi, chief scientific officer at Rock Health. "Why build your own team when you can form a partnership?"

While most corporate venture deals have focused on the Internet, the teams have a definite bent toward health care. Yet GE is nowhere to be found on CB Insights' top-25 list.

Those rankings could change radically as GE strides deeper into the startup pool, especially given that GE Ventures was launched only in January to act as a nucleus for GE's health, energy, information technology and advanced manufacturing business development and investment cells.

Siegel, well known in the biotech community as the former president of Affymetrix Inc. and for shepherding molecular diagnostics company investments while at Mohr Davidow, came aboard in May 2012. She was followed to GE a year ago by another former Mohr Davidow VC, Rowan Chapman, and earlier this year by another former Mohr Davidow partner, Alex de Winter, and Risa Stack of Kleiner Perkins Caufield & Byers.

"We're continuing to develop our model to be more streamlined, nimble, quick and entrepreneur-centric — practices we've learned from the startups we work with," Siegel said.

'Seeing around corners'

The relationship with nonprofit Breakout Labs stands out because it revolves around early-stage concept ideas.

For Breakout Labs, GE's involvement is further validation of its model for drawing innovation out of garage-style companies that are cooking up new technologies tackling knotty health and technology problems.

Mountain View's Arigos Biomedical, for example, is developing a way to draw liquid out of organs, quickly cool them for storage and eventually rewarm the tissue for transplantation. San Francisco's 3Scan Inc. has built a microscope that uses a diamond to quickly cut thin slices of tissue 300 times faster and more accurately than other devices.

Those companies and 14 others over the past two years have snagged \$50,000 to \$350,000 seed grants from Breakout Labs, which is funded by the foundation formed by PayPal co-founder Thiel. In return, Breakout Labs takes a 1 percent equity stake in the companies and is repaid through royalties that companies collect by commercializing their work.

Those royalties then flow back into a revolving fund that is dished out to new classes of startups.

But cash can get a startup only so far — and that's where GE earlier this year decided to jump in. Since the \$150 billion, 300,000-employee company casts a shadow on products ranging from light bulbs and refrigerators to military engines and image-guided surgical systems, that movement could make a big splash.

"We partnered with Breakout Labs with the goal of seeing around corners and for an opportunity to learn from companies and to identify ones to advance for collaboration," Siegel said.

The early results are ambiguous but optimistic. None of the Breakout Labs companies contacted for this story was ready to say it had a formal relationship with GE yet.

Arigos co-founder and CEO Tanya Jones is targeting a followup meeting with GE officials next year after a grilling at a March pitch session attended by a half-dozen people from GE as well as Jim Rothman, who works as a GE consultant and in October won the Nobel Prize.

"He was so engaged," recalled Lisa Coca, managing director of commercial development and operations at GE Ventures. "He said, 'Today, I think I've seen the 22nd century.'"

Now Arigos is constructing the rewarming system. If successful, the company could save hundreds of thousands of organs and make transplants available to just about anyone.

"We've had exactly one meeting (with GE) — very, very, very early stage," Jones said. "We got as vigorous a grilling (from Rothman) as we ever have had. He asked really great questions. We apparently answered them well enough that they want to hear from us again."

Bell Biosystems Inc., a San Francisco company that has developed a way of tracking several generations of cells that are injected into the body, spoke only informally with GE officials at the March pitch session.

"What was interesting with the Breakout Labs setup was that they had so many people in that room who were expert in every imaginable sector — imaging, regenerative medicine, marketing," Bell Biosystems founder and CEO Caleb Bell said. "All functions were there."

Still, it is uncertain for the Breakout Labs-backed companies what the relationship with GE ultimately holds for them. Todd Huffman of 3Scan, for example, would only say the company is "exploring possible technology collaborations" with GE.

Even if some sort of GE deal doesn't materialize, Huffman said, access to GE's expertise has been invaluable.

"We're able to talk to people much closer to decision making than if we'd gone in through the front door," he said.

Ron Leuty
Reporter

